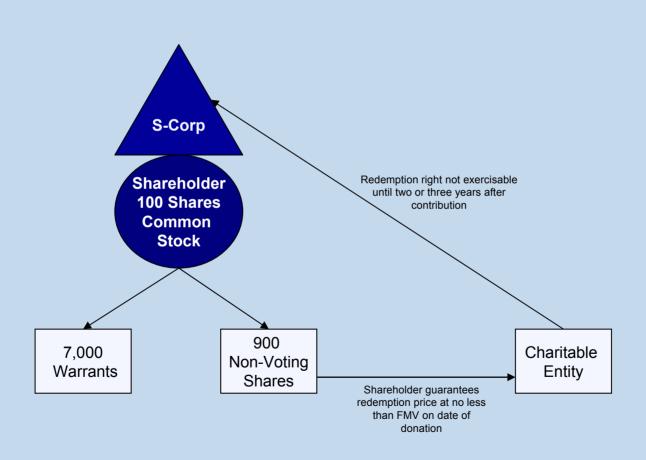
# SC<sup>2</sup>

Prepared by U.S. Senate Permanent Subcommittee on Investigations, Subcommittee Staff of Senator Carl Levin, November 2003

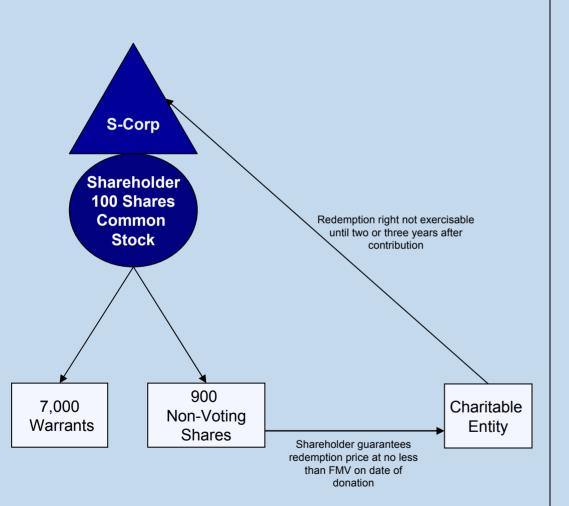
## Step 1

S-Corp. Creates and Transfers to the Shareholder an Additional 900 Voting Shares and 7,000 Warrants
Shareholder "Donates" Non-Voting Stock to a Charitable Entity



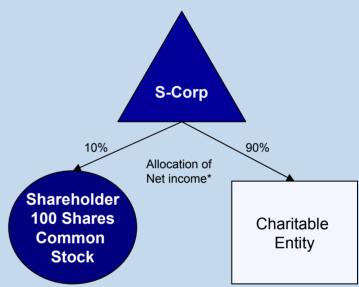
Step 1

S-Corp. Creates and Transfers to the Shareholder an Additional 900 Voting Shares and 7,000 Warrants Shareholder "Donates" Non-Voting Stock to a Charitable Entity



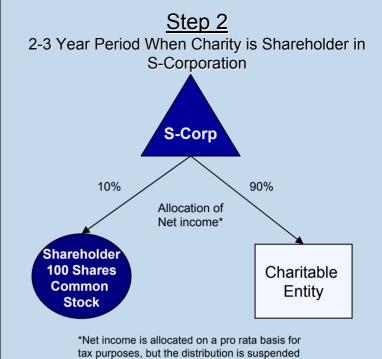
Step 2

2-3 Year Period When Charity is Shareholder in S-Corporation



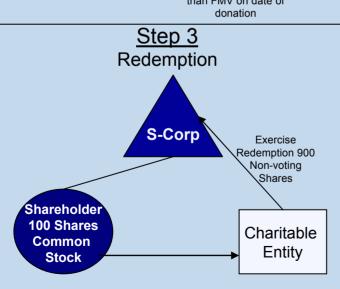
\*Net income is allocated on a pro rata basis for tax purposes, but the distribution is suspended or limited as a result of amendments to S-Corp. Articles and By-laws.

#### Step 1 S-Corp. Creates and Transfers to the Shareholder an Additional 900 Voting Shares and 7,000 Warrants Shareholder "Donates" Non-Voting Stock to a Charitable Entity S-Corp Shareholder Redemption right not exercisable 100 Shares until two or three years after Common contribution Stock 900 7,000 Charitable Non-Voting Warrants **Entity Shares** Shareholder quarantees redemption price at no less than FMV on date of



or limited as a result of amendments to S-Corp.

Articles and By-laws.

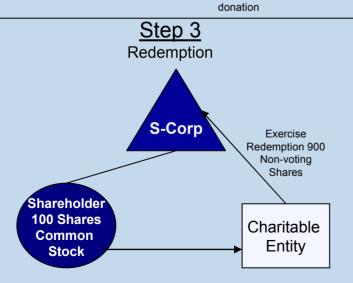


The Greater of FMV at Contribution or FMV at Redemption

#### Step 1 S-Corp. Creates and Transfers to the Shareholder an Additional 900 Voting Shares and 7,000 Warrants Shareholder "Donates" Non-Voting Stock to a Charitable Entity S-Corp Shareholder 100 Shares Redemption right not exercisable until two or three years after Common contribution Stock 900 7,000 Charitable Non-Voting Warrants **Entity** Shareholder quarantees Shares redemption price at no less than FMV on date of



\*Net income is allocated on a pro rata basis for tax purposes, but the distribution is suspended or limited as a result of amendments to S-Corp. Articles and By-laws.



The Greater of FMV at Contribution or FMV at Redemption

### Step 4 Distributions Reinstated



Distribution of income built up in corp. for 2-3 years (income taxed at preferential capital gains rate rather than ordinary income)